isentia

Provided for client's internal research purposes only. May not be further copied, distributed, sold or published in any form without the prior consent of the copyright owner.

The Star, Malaysia
30 Nov 2015, by Sharidan M. Ali

Business & Finance, page 1 - 363.00 cm²
Malaysia - English Newspapers - circulation 288,916 (MTWTFS)

ID 504749389 BRIEF FELDA INDEX 1

MSM eyes Indonesian market

Stake buy to be its first upstream foray overseas

By SHARIDAN M. ALI

KUALA LUMPUR: MSM Malaysia Holdings Bhd is looking at acquiring a substantial stake in a sugar cane plantation company in Indonesia, according to president and group chief executive officer Datuk Sheikh Awab Sheikh Abod.

"If the deal goes through, it will be MSM's first upstream foray overseas since exiting from the sugar cane plantation business in Malaysia some time ago," he said.

MSM is the country's largest sugar refiner, commanding a 64% market share. It is also a subsidiary of plantation conglomerate Felda

> TURN TO PAGE 2

MSM sees sugar demand in Indonesia

> FROM PAGE 1

Global Ventures Holdings Bhd.

Indonesia consumes about 5.8 million tonnes of sugar annually but is still short of three million tonnes. It produces about 2.1 million tonnes of sugar a year.

"MSM plans to take advantage of this situation to close the demand and supply gap," said Sheikh Awab.

He pointed out that "the gap of three million tonnes of sugar in Indonesia is quite a big business in comparison with the total sugar consumption in Malaysia, which stands at between 1.38 million and 1.4 million tonnes annually".

Sheikh Awab said the company had put in a good proposal to the Indonesian government and expected it to be a smooth deal.

MSM had indicated that it had inked a non-disclosure agreement but declined to name the targeted company.

Sheikh Awab said: "Ideally, we are looking at 20,000ha to 22,000ha of sugar cane plantations.

"This is in line with Indonesia's plan to woo more foreign investors, and we are trying to convince the government that MSM is serious about its proposal and ready to join hands.

"In fact, we will soon have a sugar trading representative office in Indonesia. This will be a subsidiary of our main trading office in Dubai that will start operations in January next year," he told a press briefing on MSM's third-quarter results here recently.

Apart from Indonesia, MSM is eyeing sugar cane plantation companies in Sri Lanka.

Sri Lanka is similarly short of sugar supply by about 460,000 tonnes against its total consumption of one million tonnes annually.

On the other hand, Sheikh Awab said MSM

The Star, Malaysia
30 Nov 2015, by Sharidan M. Ali

Business & Finance, page 1 - 363.00 cm²
Malaysia - English Newspapers - circulation 288,916 (MTWTFS)

ID 504749389 BRIEF FELDA INDEX 1

was cautious about the acquisition as it required a lot of capital expenditure.

"We must make sure that the return on investment period is optimal. Also, we must be wary of the stability and pricing factors too.

"It is a good time to venture into sugar cane plantations now as the price of raw sugar is expected to escalate compared with last year," he said.

Raw sugar prices have escalated above 15 US cents per pound from a low of 11 US cents in October, which in turn have affected the margins of sugar cane plantations worldwide.

Sheikh Awab expected the commodity to jump between 16.5 US cents and 17 US cents in the short term.

"This is also due to the policy changes in ethanol (a product of sugar cane or raw sugar refining) fuel or biodiesel in major raw sugar producing countries."

For example, Brazil has increased the percentage of ethanol to 27.5% in biodiesel from 25%.

Unofficially, it was expected to increase up to 30%, which boded well for raw sugar prices, added Sheikh Awab.

On another note, he said mergers and acquisitions would also be the main growth story for MSM next year.

"We have to sail out beyond the already saturated local sugar market to enable MSM to expand.

"The local market is flooded with other white sugar importers as the Government has relaxed the issuance of white sugar import permits," Sheikh Awab said.

Hence, MSM is establishing a dedicated trading office in Dubai, UAE, and will have representative offices in Thailand, Indonesia, China and India.

"But we anticipate the trading business will take time to grow. We have to be prudent next year as cost is increasing, pending the opening of our advanced RM1bil Tanjong Langsat refinery.

"We expect to ground break in January or February and construction should take about 22 months. In the meantime, we have to find ways to increase revenue in the short term," he said.

Once the refinery is completed, the company's production capacity will rise to 3.25 million tonnes of refined sugar per year from the current one million tonnes.

Sheikh Awab noted that MSM's global and domestic expansion plans were timely, as the Government is slowly liberalising the country's sugar industry.

It is removing sugar subsidies and giving out industry permits to import sugar.

Malaysia's refined sugar at RM2.84 per kg is the second cheapest in the region after Thailand. Thailand produces its raw sugar, while Malaysia imports 100% of its raw sugar.

For the nine-month financial performance ended Sept 30, MSM posted a net profit of RM214mil, up 17.6% compared with the previous cumulative year.

Revenue for the same period, however, dipped slightly to RM1.64bil from RM1.65bil.